

Liberty Dental Plan Of California
File No. 933-0052
Notes to Financial Statements
For the Month Ended November 30, 2003

1. Organization

Liberty Dental Plan of California, Inc. is a Dental Health Maintenance Organization (DMHO) licensed by Department of Managed Health Care under the Knox-Keene Health Care Service Act of 1975. Liberty Dental Plan of California was incorporated in State of California in 2001.

Liberty Dental Plan of California acquired all the assets of Preferred Health Plans, Inc. d.b.a. Preferred Dental Plan on December 27th, 2001.

The company operates in California and provides managed dental services on a contractual basis. Members pay the plan a monthly premium with additional scheduled co-payments payable to network providers for services rendered. These services are provided by Liberty Dental Plan's network of contracted dentists and specialists that are pre-screened to meet standards set forth by Liberty Dental Plan's active quality management program.

2. Significant Accounting Policies

a. Property and Equipment

Property and Equipment are stated at cost. Depreciation of Property and Equipment are computed using the straight-line method at the following rates:

Furniture and Fixtures	7 years @ 14.3% per yr
Computer Equipment/Office Equipment	5 years @ 20% per yr
Computer Software	3 years @ 33.3% per yr

b. Intangible Assets

Intangible Assets are stated at cost. GAAP policies no longer amortize Intangible Assets unless the intangibles have been impaired. Liberty Dental Plan's Intangible Assets are consisted of the following:

Contracts	\$108,932 original cost
Knox-Keene License	\$150,000 original cost

c. DMHC Fees

DMHC fees are calculated as prepaids and are equally expensed over the fiscal year from July to June.

d. Prepaid Expenses

Prepaid expenses are consisted of Prepaid Administrative Expenses and Memberships in which annual dues are prepaid and realized as an expense across the life of the membership

3. **Fixed Assets and Intangibles Breakdown**

	<u>Original Cost</u>	<u>Accumulated Depreciation & Impairment</u>
<u>Property and Equipment*</u>		
Furniture & Fixtures (Pg 1A-line 20 Furniture and Equipment)	\$25,000	\$6,845
Computer/Office Equip. (Pg 1A-line 21 Computer Equipment)	\$80,865	\$30,740
Computer Software (Aggregate Item 25-line 2501)	<u>\$73,139</u>	<u>\$46,728</u>
	\$179,004	\$84,313
 <i>Total Property and Equipment (less depreciation)</i>	 <u>\$94,691</u>	
<i>Total Property and Equipment (w/ New Purchases)</i>	<u>\$95,426</u>	
 <u>Intangible Assets**</u>		
Contracts	\$108,932	\$5,447
Knox-Keene License	<u>\$150,000</u>	<u>\$7,500</u>
	\$258,932	\$12,947
 <i>Total Intangible Assets (less Impairment)</i>	 <u>\$245,985</u>	

New Purchases during the Month ended *November 30, 2003*

New Phone System Rack (Furniture & Equipment) \$735

Footnotes:

*Due to Liberty Dental Plan's October 21st, 2002 Independent Audit for the 2001-2002 fiscal year, a reorganization of Property and Equipment has been established. The 2 original categories of Furniture and Equipment (original cost of \$102,358) and Computer Equipment (original cost of \$75,576) have been separated into further detail. Liberty Dental Plan now has 3 Property and Equipment categories consisted of Furniture and Fixtures (original cost of \$25,000), Computer/Office Equipment (original cost of \$79,795), and Computer Software (original cost \$73,139). This reorganization has taken effect to better represent our Fixed Assets. Any increases to these original figures are from new purchases.

**Recent GAAP Policies state that Intangible Assets are no longer amortized. Liberty Dental Plan's contracts suffered impairment of \$12,947 in the 2001-2002 fiscal year. No new impairment has occurred for the 2002-2003 fiscal year up-to-date.

4. **Other Assets**

Restricted Assets

Liberty opened a Certificate of Deposit on August 1, 2002 with Wells Fargo Bank for \$50,000. This certificate complies with DMHC cash requirements and matures on August 1, 2007.

5. **Revenue and Expense Summation**

Revenues: The following revenue headings include the following revenues for the current fiscal year:

- a. *Premiums:* Group and Individual Revenues
- b. *Aggregate Write-Ins other Revenues:* Premium Refunds

Expenses: The following expense headings include the following expenses for the current fiscal year:

- a. *Compensation:* Payroll, Pay Taxes, Medical Insurance
- b. *Occupancy, Depreciation, Amortization:* Depreciation, Amortization, Security, Rent, Leases on Building Equipment, DSL
- c. *Marketing:* Broker Commissions
- d. *Aggregate Write-Ins for Other Administrative Expenses:* Printing; Advertising and Promotion; Travel and Business; Repairs/Maintenance; Postage; Telephone; Banks Fees; Office Expense; Consulting; DMHC Fees; Legal, Insurance, and Accounting Fees; Licenses and Fees; Penalties and Fines; Bad Debt Expense; State Tax Expense

6. **Current Accounting Issues**

- There is an absence of individual enrollment in Page 4 "Enrollment and Utilization Table" because individuals are included within the group enrollment. Liberty Dental Plan is currently configuring its software system to generate reports separating both group and individual enrollment statistics.
- Liberty Dental Plan is required to file variance reports accompanied with its monthly filings. and will continue to file monthly variance reports until otherwise notified by the DMHC.
- Liberty Dental Plan filed new projections for the next 12 months beginning with month end February 28, 2003 and concluding with month end January 31, 2004. Variance reports are directly compared to these financial forecasts

- Liberty Dental Plan is currently awaiting DMHC approval on new and revised financial forecast. Scheduled cash infusions will take place immediately upon approval.